

**LILLEY TOWNSHIP
NEWAYGO COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2008

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LILLEY TOWNSHIP

Board Members

	<u>Position</u>
Jack Hoving	Supervisor
Marlene Stroop	Clerk
Kathryn Way	Treasurer
Mitchell Barron	Trustee
Lawrence Monfils	Trustee



Township Board
Lilley Township
Newaygo County
Bitely, MI 49309

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lilley Township as of and for the year ended June 30, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Townships' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lilley Township, Michigan as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 5 and 20 through 23, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lilley Township, Michigan's basic financial statements. The combining non-major and individual fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hendon & Slate, P.C.

Hendon & Slate, P.C.
Certified Public Accountants
Fremont Office
January 17, 2009

LILLEY TOWNSHIP

Management's Discussion and Analysis June 30, 2008

Using this Annual Report

This annual report consists of a series of financial statements. The Governmental Wide Statement of Net Assets and the Government Wide Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

The Township as a Whole

The Township's combined net assets increased from \$559,283 in 2006 to \$561,204 in 2008. In a condensed format, the table below shows key financial information .

	Governmental Activities 2008	Governmental Activities 2006
Current Assets	\$ 315,898	\$ 349,879
Noncurrent Assets	306,743	286,628
Total Assets	<u>\$ 622,641</u>	<u>\$ 636,507</u>
Long-Term Debt Outstanding	\$ 47,367	\$ 71,167
Other Liabilities	14,070	6,057
Total Liabilities	<u>\$ 61,437</u>	<u>\$ 77,224</u>
Net Assets		
Invested in Capital Assets-Net of Debt	\$ 212,900	\$ 215,461
Unrestricted	348,304	343,822
Total Net Assets	<u>\$ 561,204</u>	<u>\$ 559,283</u>

Unrestricted net assets - the part of net assets that can be used to finance day to day operating, decreased from \$60,838 in 2006 to \$(488) in 2008 for the governmental activities.

Management's Discussion and Analysis (Continued)

	Governmental Activities 2008	Governmental Activities 2006
Program Revenues		
Charges for Services	\$ 14,422	\$ 16,314
Grants	905	
General Revenues		
Property Taxes	203,228	187,512
State Shared Revenues	55,341	56,156
Refunds & Rebates	62,999	51,883
Rentals & Royalties	277	561
Interest	2,062	675
Other	3,972	-
Total Revenues	\$ 343,206	\$ 313,101
Program Expenses		
General Government	84,232	77,430
Public Safety	99,791	90,044
Public Works	131,529	58,031
Community & Economic Development	8,966	7,904
Other	19,176	18,854
Total Expenses	343,694	252,263
Change in Net Assets	\$ (488)	\$ 60,838

The Township's total net assets continue to remain healthy. This is attributed to monitoring the budget to actual total expenditures and maintaining a prudent attitude towards spending.

Governmental Activities

The Township's total governmental revenues increased by approximately \$30,100. The following revenues increased: property taxes increased \$15,716, refunds and rebates increased \$11,116, and interest increased \$1,387.

Expenses increased by about \$91,000 over the prior year which is mostly due to the addition to Public works and Safety additions.

Management's Discussion and Analysis (Continued)

Business-Type Activities

The Township had not business type activities.

The Township's Fund

Our analysis of the Township's major funds follows the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2008 include the General Fund, the Road Fund, the Fire Fund, and the Sanitation Fund.

General Fund Budgetary Highlights

Over the course of the year, the Township Board amended the budget to take into account events during the year, however, there were a few instances in which the Board did over-expend as reported in the notes to the financial statements.

Capital Asset and Debt Administration

At the end of 2008, the Township had \$306,743 invested in a broad range of capital assets, including land, buildings, vehicles, and equipment. In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the township's financial statements because of Michigan law, which makes these roads property of the Newaygo County Road Commission (along with the responsibility to maintain them).

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

LILLEY TOWNSHIP

Government Wide Statement of Net Assets June 30, 2008

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 301,047
Prepaid Insurance	3,412
Due From Other Gov't	1,393
Due From Other Units	152
Accounts Receivable	9,894
Capital Assets, Net	<u>306,743</u>
 Total Assets	 622,641
 LIABILITIES	
Accounts Payable	13,260
Due to Other Gov't Units	810
Long-Term Debt - Due in 1 Year or Less	14,868
Long-Term Debt - Due in More than 1 Year	<u>32,499</u>
 Total Liabilities	 <u>61,437</u>
 NET ASSETS	
Invested in Capital Assets	
Net of Related Debt	212,900
Unrestricted	<u>348,304</u>
 Total Net Assets	 <u><u>\$ 561,204</u></u>

The Notes to the Financial Statements are an integral part of this statement

LILLEY TOWNSHIP

Government Wide Statement of Activities For the Year Ended June 30, 2008

		<u>Program Revenues</u>		Net (Expenses) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Primary Government				
General Government	\$ 84,232	\$ 14,422	\$ 905	\$ (68,905)
Public Safety	99,791	-	-	(99,791)
Public Works	131,529	-	-	(131,529)
Economic Development	8,966	-	-	(8,966)
Other	19,176	-	-	(19,176)
Total Primary Government	\$ 343,694	\$ 14,422	\$ 905	(328,367)
General Revenues				
Property Taxes - Levied for General Purpose				203,228
State Shared Revenue				55,341
Refunds & Reimbursements				62,999
Rentals & Royalties				277
Interest				2,062
Other				3,972
Total General Revenues				327,879
Change in Net Assets				(488)
Net Assets - July 1, 2007				561,692
Net Assets - June 30, 2008				\$ 561,204

The Notes to the Financial Statements are an integral part of this statement

LILLEY TOWNSHIP

Governmental Fund Balance Sheet June 30, 2008

	General Fund	Road Fund	Sanitation Fund	Fire Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash	\$ 86,233	\$ 22,797	\$ 122,754	\$ 54,526	\$ 14,737	\$ 301,047
Accounts Receivable	8,586	-	-	-	1,308	9,894
Due from Other Funds	552	-	-	-	-	552
Due from Other Governments	1,393	-	-	-	-	1,393
Total Assets	\$ 96,764	\$ 22,797	\$ 122,754	\$ 54,526	\$ 16,045	\$ 312,886
LIABILITIES						
Accounts Payable	\$ 790	\$ 3,747	\$ 3,425	\$ 5,298	\$ -	\$ 13,260
Due to Other Funds	-	-	400	-	-	400
Due to Other Governments	810	-	-	-	-	810
Total Liabilities	1,600	3,747	3,825	5,298	-	14,470
FUND BALANCES						
Unrestricted	95,164	19,050	118,929	49,228	16,045	298,416
Total Fund Balance	95,164	19,050	118,929	49,228	16,045	298,416
Total Liabilities and Fund Equity	\$ 96,764	\$ 22,797	\$ 122,754	\$ 54,526	\$ 16,045	\$ 312,886

The Notes to the Financial Statements are an integral part of this statement

LILLEY TOWNSHIP

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets For the Year Ended June 30, 2008

Total Governmental Fund Balances	\$ 298,416
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Total net assets reported for governmental activities in the statement of net assets are different from the amount reported as total governmental funds fund balance because:

Prepaid insurance reflects amounts that will be paid in a future period	3,412
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Notes payable are not due or payable in the current period and are not reported in the fund statements	(47,367)
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net assets:

Governmental Capital Asset	\$ 687,698	
Governmental Accumulated Depreciation	<u>(380,955)</u>	<u>306,743</u>

Total Net Assets - Governmental Activities:	<u><u>\$ 561,204</u></u>
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The Notes to the Financial Statements are an integral part of this statement

LILLEY TOWNSHIP

Governmental Fund Statements of Revenue, Expenditures, and Changes in Fund Balance For the Year Ended June 30, 2008

	General Fund	Road Fund	Sanitary Waste Fund	Fire Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues						
Property Taxes	\$ 44,362	\$ 28,536	\$ 85,630	\$ 38,322	\$ 6,378	\$ 203,228
State Shared Revenue	55,341	-	-	-	-	55,341
Grants	-	905	-	-	-	905
Licenses and Permits	450	5	-	-	12,937	13,392
Charges for Services	500	-	-	-	530	1,030
Refunds and Reimbursements	835	7,138	-	55,026	-	62,999
Rentals and Royalties	277	-	-	-	-	277
Miscellaneous	2,789	-	-	-	-	2,789
Interest	2,062	-	-	-	-	2,062
Total Revenues	106,616	36,584	85,630	93,348	19,845	342,023
Expenditures						
General Government	79,034	-	-	-	5,198	84,232
Public Safety	2,675	-	-	101,553	12,563	116,791
Public Works	-	53,164	107,091	-	-	160,255
Economic Development	8,966	-	-	-	-	8,966
Other	7,001	-	1,832	7,674	2,669	19,176
Total Expenditures	97,676	53,164	108,923	109,227	20,430	389,420
Excess Revenue Over (Under) Expenditures	8,940	(16,580)	(23,293)	(15,879)	(585)	(47,397)
Fund Balance - July 1, 2007	86,224	35,630	142,222	65,107	16,630	345,813
Fund Balance - June 30, 2008	<u>\$ 95,164</u>	<u>\$ 19,050</u>	<u>\$ 118,929</u>	<u>\$ 49,228</u>	<u>\$ 16,045</u>	<u>\$ 298,416</u>

The Notes to the Financial Statements are an integral part of this statement

LILLEY TOWNSHIP

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ (47,397)

Amounts reported for governmental activities in the statement of activities are different because:

Prepaid expenses reflect amounts that will be paid in a future period:

Current Year Prepaid Insurance	\$ 3,412	
Prior Year Prepaid Insurance	<u>(2,979)</u>	433

Note payable principal payments are reported as an expenditure in the fund statements but not in the statement of activities (where it reduces long-term debt).	12,392
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The acquisition of capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense

Capital outlay reported in governmental fund statements	71,816	
Depreciation Expense	<u>(37,732)</u>	<u>34,084</u>

Changes in Net Assets - Governmental Activities \$ (488)

The Notes to the Financial Statements are an integral part of this statement

LILLEY TOWNSHIP

Statement of Net Assets - Fiduciary Fund June 30, 2008

	<u>Trust and Agency Fund</u>
Assets	
Cash and Investments	<u>\$ 152</u>
Total Assets	<u><u>\$ 152</u></u>
Liabilities and Net Assets	
Liabilities	
Due to Other Funds	<u>\$ 152</u>
Total Liabilities	152
Net Assets	
Unreserved	<u>-</u>
Total Liabilities and Net Assets	<u><u>\$ 152</u></u>

The Notes to the Financial Statements are an integral part of this statement

LILLEY TOWNSHIP

Notes to the Financial Statements For the Year Ended June 30, 2008

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lilley Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by Lilley Township.

A. Reporting Entity

The reporting entity is a general law township as defined by the laws of the State of Michigan. The Township is governed by a Supervisor and Township Board.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. Appoints a voting majority of the organization's board, and, has the ability to impose its will on the organization; or
2. There is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on this criteria, there are no other entities included in this report.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Notes to the Financial Statements (continued)

C. Measurement Focus, basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is when they become both measurable and available to finance expenditures of the fiscal period.

1. State Shared Revenue Receivable

State Shared Revenue is distributed in six installments per year. Often, the last payment has not been received by June 30, 2008; therefore, a receivable is recorded for this amount. For fiscal year-end June 30, 2008, the receivable amount was \$8,588.

2. Property Taxes Receivable

The Township property tax is levied on each December 1st on the taxable valuation of the property (as defined by state statutes) located in the Township as of the preceding December 31st. The taxes are due on September 14th and February 14th, with the final collection date of February 28th before they are added to the County tax rolls. The 2007 delinquent taxes were received during the fiscal year ended June 30, 2008, therefore, no receivable was recorded for this amount.

The 2007 taxable valuation of the Township totaled \$30,381,632 on which ad valorem taxes levied consisted of 1.2062 mills for general operations, 1.2591 mills for fire operations, 2.8134 mills for waste and transfer operations, .9376 mills for roads, and .2096 mills for cemetery operations raising \$36,644 for general operations (plus \$7,718 of administration fee), \$38,322 for fire operations, \$85,630 for waste and transfer operations, \$28,536 for roads, and \$6,378 for cemetery operations. These amounts are recognized in the respective general and special revenue fund financial statements as current tax revenue.

The government reports the following major governmental funds:

The General fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Fund accounts for the resources of property tax revenue and charges for services that are restricted for fire protection purposes.

Notes to the Financial Statements (continued)

The Sanitary Waste Fund accounts for the property tax revenues that are restricted for the operation of the transfer station.

The Road Fund accounts for the resources of property tax revenue, charges for services and PILT monies for the maintenance of Township roads.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D. Assets, Liabilities, and Fund Balance

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated as fair value. Pooled investment income is generally allocated to each fund based on the cash balance in each fund.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds". Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds".

Inventories and Prepaid Items - Payments for inventorable types of supplies are recorded as expenditures at the time of purchase. Normally expenditures are not divided between years by the recording of prepaid expenses. There were no material inventories at year end.

Capital Assets - Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Buildings and	30
Land Improvements	15
Fire Trucks	8
Equipment	5 - 7

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Notes to the Financial Statements (continued)

Estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenditures/expenses. Actual results may differ from those estimates.

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Township approves its originally adopted budget by the end of the current fiscal year. Amendments are approved periodically during the year.

The budget document presents information by fund, activity, and line items. The legal level of budgetary control adopted by the governing body is the activity level.

The Township does not utilize encumbrance accounting.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Local Governmental Unit incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budget Item</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund - Legislative	\$ 9,800	\$ 14,686	\$ (4,886)
General Fund - Board of Review	2,325	2,861	(536)
General Fund - Treasurer	9,860	11,081	(1,221)
General Fund - Township Hall &	17,700	21,541	(3,841)
General Fund - Com. & Econ Dev.	3,360	5,229	(1,869)
Fire Fund - Public Safety	77,605	101,553	(23,948)
Fire Fund - Other	7,650	7,674	(24)
Sanitation Fund - Public Works	57,650	107,091	(49,441)
Road Fund - Public Works	32,940	53,164	(20,224)

NOTE C DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Deposits - The Township maintains pooled cash and investment accounts. Each fund type portion is displayed on the combined balance sheet as "Cash" under each fund's caption. All cash deposits are held in the Township's own name at Lake Osceola State Bank and Independent Bank West Michigan. Following is a schedule of cash insured by the Federal Deposit Insurance Corporation (FDIC).

The Township's deposits and investment policy are in accordance with statutory authority.

The Township's deposits were reported in the basic financial statements in the following

Notes to the Financial Statements (continued)

	Carrying Value	Market Value	FDIC Insured
Now Account	\$ 230,073	\$ 231,201	\$100,000
CD's	70,700	70,000	70,000
Delinq. PPT Account	3	3	-
Tax Account	149	149	-
Total Deposits	<u>\$ 300,925</u>	<u>\$ 301,353</u>	<u>\$170,000</u>

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments are normally categorized to give an indication of the level of risk assumed by the Township; however, cash management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

NOTE D RECEIVABLES

Receivables as of year-end for the Township's individual major and non-major funds, and the fiduciary funds in the aggregate, including the applicable allowances for uncollected accounts, are as follows:

	General Fund	Fire Fund	Building Fund	Total
Accounts Receivable	<u>\$ 8,586</u>	<u>\$ -</u>	<u>\$ 1,308</u>	<u>\$ 9,894</u>

NOTE E CAPITAL ASSETS

Capital asset activity of the primary government of the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not being depreciated				
Land	\$ 31,210	\$ -	\$ -	\$ 31,210
Capital Assets Being Depreciated				
Land Improvements	30,999	54,816	-	85,815
Equipment	45,931	-	-	45,931
Vehicles	377,000	17,000	6,000	388,000
Buildings & Improvements	130,742	-	-	130,742
Subtotal	584,672	71,816	6,000	650,488
Less Accumulated Depreciation for				
Land Improvements	11,180	10,251	-	21,431
Equipment	12,468	6,410	-	18,878
Vehicles	296,813	17,326	4,725	309,414
Buildings & Improvements	22,762	3,745	-	26,507
Subtotal	343,223	37,732	4,725	376,230
Net Capital Assets being depreciated	241,449	34,084	1,275	274,258
Capital Assets - Net of Depreciation	<u>\$ 272,659</u>	<u>\$ 34,084</u>	<u>\$ 1,275</u>	<u>\$ 305,468</u>

Notes to the Financial Statements (continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$ 1,674
Fire Fund	25,645
Cemetery Fund	745
Transfer Station Fund	<u>9,668</u>
Total Governmental Activities	<u>\$ 37,732</u>

NOTE F INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances is as follows:

Receivable Fund Due From		Payable Fund (Due To)	
General Fund	\$ 400	Transfer Station Fund	\$ (400)
General Fund	<u>152</u>	Trust & Agency Fund	<u>(152)</u>
	<u>\$ 552</u>		<u>\$ (552)</u>

NOTE G PENSION PLAN

The Township provides pension benefits to some of its full time employees through a defined contribution plan administered by Burnham & Flower Insurance Group. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Township Board, the plan is funded by a contribution from the Township of \$100 per range of \$500 of covered employees' salaries of a \$500 maximum contribution limited by Code Section 415 to 25% of a participant's annual compensation. The Township's contributions for each employee (plus interest allocated to the employee's account) are fully vested upon death, total disability, or attainment of normal retirement age (after six months of service). Upon early retirement or termination of employment for any reason, it shall vest in accordance with the vesting schedule in part 7 of the adoption agreement.

The Township's total payroll during the current year was \$69,636, of which \$19,843 was covered by the plan. The employer contribution made during the current year amounted to \$2,100.

NOTE H INSTALLMENT PURCHASE AGREEMENT

On November 12, 2001, the Township entered into an agreement with West Shore Fire, Inc. for the purchase of a 2000 Emergency One Fire Truck, with financing through Lake Osceola State Bank for \$119,000. Payments began December 12, 2001, at \$1,239 per month including interest. The annual requirement to amortize long-term debt outstanding as of June 30, 2008, including interest, is as follows:

Year Ended June 30	Fire Truck Loan
2009	14,868
2010	14,868
2011	14,868
2012	<u>6,710</u>
Total Payments	51,314
Less Interest Portion	<u>(3,947)</u>
Principal Portion	<u>\$ 47,367</u>

Notes to the Financial Statement (Continued)

The following is a summary of Long-Term Debt transactions for the year.

	Balance 7/1/2007	Issued	Retired	Balance 6/30/2008
Fire Truck Loan	<u>\$ 59,759</u>	<u>\$ -</u>	<u>\$ 12,392</u>	<u>\$ 47,367</u>

Interest expense for the fiscal year end June 30, 2008 was \$2,477.

NOTE I RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets and omissions; and natural disasters for which the Township carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

LILLEY TOWNSHIP

Required Supplementary Information Budgetary Comparison Schedule for General Fund For the Year Ended June 30, 2008

	Budgeted Amounts			Variance to
	Original	Final	Actual	Final Budget
Beginning Year Fund Balance - July 1, 2007	\$ 86,224	\$ 86,224	\$ 86,224	\$ -
Resources (Inflows)				
Property Taxes	40,750	40,750	44,362	3,612
State Shared Revenue	25,000	25,000	55,341	30,341
Licenses and Permits	800	800	450	(350)
Charges for Services	1,020	1,020	500	(520)
Refunds and Reimbursements	50	50	835	785
Rentals and Royalties	300	300	277	(23)
Miscellaneous	-	-	2,789	2,789
Interest	500	500	2,062	1,562
Amounts Available for Appropriation	154,644	154,644	192,840	38,196
Charges to Appropriations (Outflows)				
General Government	76,185	76,185	79,034	(2,849)
Public Safety	7,000	7,000	2,675	4,325
Community & Economic Development	11,450	11,450	8,966	2,484
Other	10,485	10,485	7,001	3,484
Total Charges to Appropriation	105,120	105,120	97,676	7,444
Budgetary Fund Balance - June 30, 2008	\$ 49,524	\$ 49,524	\$ 95,164	\$ 45,640

LILLEY TOWNSHIP

Required Supplementary Information
Budgetary Comparison Schedule for Road Fund
For the Year Ended June 30, 2008

	Budgeted Amounts			Variance to
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
Beginning Year Fund Balance - July 1, 2007	\$ 35,630	\$ 35,630	\$ 35,630	\$ -
Resources (Inflows)				
Property Taxes	26,030	26,030	28,536	2,506
Grants	2,400	2,400	905	(1,495)
Licenses & Permits	5	5	5	-
Reimbursements	<u>7,000</u>	<u>7,000</u>	<u>7,138</u>	<u>138</u>
Amounts Available for Appropriation	71,065	71,065	72,214	1,149
Charges to Appropriations (Outflows)				
Public Works	<u>32,940</u>	<u>32,940</u>	<u>53,164</u>	<u>(20,224)</u>
Total Charges to Appropriation	32,940	32,940	53,164	(20,224)
Budgetary Fund Balance - June 30, 2008	<u>\$ 38,125</u>	<u>\$ 38,125</u>	<u>\$ 19,050</u>	<u>\$ (19,075)</u>

LILLEY TOWNSHIP

Required Supplementary Information Budgetary Comparison Schedule for Sanitation Fund For the Year Ended June 30, 2008

	Budgeted Amounts			Variance to
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
Beginning Year Fund Balance - July 1, 2007	\$ 142,222	\$ 142,222	\$ 142,222	\$ -
Resources (Inflows)				
Property Taxes	<u>78,588</u>	<u>78,588</u>	<u>85,630</u>	<u>7,042</u>
Amounts Available for Appropriation	220,810	220,810	227,852	7,042
Charges to Appropriations (Outflows)				
Public Works	57,650	57,650	107,091	(49,441)
Other	<u>2,950</u>	<u>2,950</u>	<u>1,832</u>	<u>1,118</u>
Total Charges to Appropriation	<u>60,600</u>	<u>60,600</u>	<u>108,923</u>	<u>(48,323)</u>
Budgetary Fund Balance - June 30, 2008	<u>\$ 160,210</u>	<u>\$ 160,210</u>	<u>\$ 118,929</u>	<u>\$ (41,281)</u>

LILLEY TOWNSHIP

Required Supplementary Information Budgetary Comparison Schedule for Fire Fund For the Year Ended June 30, 2008

	Budgeted Amounts			Variance to
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
Beginning Year Fund Balance - July 1, 2007	\$ 65,107	\$ 65,107	\$ 65,107	\$ -
Resources (Inflows)				
Property Taxes	37,050	37,050	38,322	1,272
Reimbursements	<u>50,300</u>	<u>50,300</u>	<u>55,026</u>	<u>4,726</u>
Amounts Available for Appropriation	152,457	152,457	158,455	5,998
Charges to Appropriations (Outflows)				
Public Safety	57,605	77,605	101,553	(23,948)
Other	<u>7,650</u>	<u>7,650</u>	<u>7,674</u>	<u>(24)</u>
Total Charges to Appropriation	65,255	85,255	109,227	(23,972)
Budgetary Fund Balance - June 30, 2008	<u>\$ 87,202</u>	<u>\$ 67,202</u>	<u>\$ 49,228</u>	<u>\$ (17,974)</u>

LILLEY TOWNSHIP

Combining Balance Sheet Non-Major Governmental Funds June 30, 2008

	Cemetery Fund	Building Inspection Fund	Total Non-Major Governmental Funds
ASSETS			
Cash	\$ 7,244	\$ 7,493	\$ 14,737
Accounts Receivable	-	1,308	1,308
Total Assets	\$ 7,244	\$ 8,801	\$ 16,045
LIABILITIES AND FUND EQUITY			
Liabilities			
Accounts Payable	\$ -	\$ -	\$ -
Total Liabilities	-	-	-
Fund Equity			
Fund Balances - Unreserved	7,244	8,801	16,045
Total Liabilities and Fund Equity	\$ 7,244	\$ 8,801	\$ 16,045

LILLEY TOWNSHIP

Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Non-Major Governmental Funds For the Year Ended June 30, 2008

	Special Revenue Funds		
	Cemetery Fund	Inspection Fund	Total Non-Major Governmental Funds
Revenues			
Property Taxes	\$ 6,378	\$ -	\$ 6,378
Licences and Permits	-	12,937	12,937
Charges for Services	530	-	530
Total Revenues	6,908	12,937	19,845
Expenditures			
General Government	5,198	-	5,198
Public Safety	-	12,563	12,563
Other	2,278	391	2,669
Total Expenditures	7,476	12,954	20,430
Excess Revenue Over (Under) Expenditures	(568)	(17)	(585)
Fund Balance - July 1, 2007	7,812	8,818	16,630
Fund Balance - June 30, 2008	\$ 7,244	\$ 8,801	\$ 16,045

LILLEY TOWNSHIP

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund For the Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues			
Property Taxes	\$ 40,750	\$ 44,362	\$ 3,612
State Shared Revenue	25,000	55,341	30,341
Licenses and Permits	800	450	(350)
Charges for Services	1,020	500	(520)
Refunds and Reimbursements	50	835	785
Rentals and Royalties	300	277	(23)
Miscellaneous	-	2,789	2,789
Interest	500	2,062	1,562
Total Revenues	68,420	106,616	38,196
Expenditures			
General Government			
Township Board			
Salaries and Wages		2,800	
Supplies		506	
Professional Services		10,319	
Transportation		110	
Printing & Publishing		285	
Dues		612	
Miscellaneous		54	
	9,800	14,686	(4,886)
Supervisor			
Salaries and Wages		5,170	
Education & Training		145	
	5,320	5,315	5
Elections			
Salaries and Wages		659	
Supplies		160	
Transportation		144	
Printing & Publishing		49	
	2,250	1,012	1,238

Statement of Revenues, Expenditures and
Changes in fund Balance - General Fund (continued)

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Assessor			
Supplies		128	
Contracted Services		<u>11,279</u>	
	15,800	11,407	4,393
Clerk			
Salaries & Wages		6,432	
Supplies		1,112	
Communications		999	
Transportation		170	
Miscellaneous		199	
Education & Training		181	
Capital Outlay		<u>2,038</u>	
	13,130	11,131	1,999
Board of Review			
Salaries and Wages		1,430	
Supplies		143	
Transportation		54	
Printing & Publishing		234	
Education & Training		210	
Capital Outlay		<u>790</u>	
	2,325	2,861	(536)
Treasurer			
Salaries and Wages		5,840	
Supplies		2,618	
Communications		1,207	
Education & Training		204	
Capital Outlay		<u>1,212</u>	
	9,860	11,081	(1,221)
Township Hall and Grounds			
Salaries and Wages		4,932	
Supplies		1,517	
Contracted Services		2,210	
Utilities		6,971	
Repairs		<u>5,911</u>	
	<u>17,700</u>	<u>21,541</u>	<u>(3,841)</u>
Total General Government	76,185	79,034	(2,849)

Statement of Revenues, Expenditures and
Changes in fund Balance - General Fund (continued)

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Public Safety			
Rescue			
Contracted Services	<u>7,000</u>	<u>2,675</u>	<u>4,325</u>
Total Public Safety	7,000	2,675	4,325
Community & Economic Development			
Planning			
Salaries & Wages		5,060	
Supplies		20	
Transportation		<u>149</u>	
	3,360	5,229	(1,869)
Zoning			
Salaries & Wages		1,365	
Supplies		884	
Printing & Publishing		<u>577</u>	
	6,100	2,826	3,274
Zoning Board of Appeals			
Salaries & Wages		790	
Printing & Publishing		<u>121</u>	
	<u>1,990</u>	<u>911</u>	<u>1,079</u>
Total Community & Economic Development	11,450	8,966	2,484
Other			
Retirement		2,100	
Insurance		3,516	
Payroll Taxes		<u>1,385</u>	
Total Other	<u>10,485</u>	<u>7,001</u>	<u>3,484</u>
Total Expenditures	<u>105,120</u>	<u>97,676</u>	<u>7,444</u>
Excess Revenues Over			
(Under) Expenditures	(36,700)	8,940	45,640
Fund Balance - July 1, 2007	<u>86,224</u>	<u>86,224</u>	<u>-</u>
Fund Balance - June 30, 2008	<u>\$ 49,524</u>	<u>\$ 95,164</u>	<u>\$ 45,640</u>



January 17, 2009

Board Members
Lilley Township
Newaygo County, MI

Dear Board Members:

In planning and performing our audit of the financial statements of Lilley Township as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Lilley Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Controls over Non-Routine and Non-Systematic Transactions

The Township does not have controls in place whereby journal entries are reviewed by individuals independent of the person initiating the transactions.

Controls over Financial Statement Preparation

As part of the audit, management has requested us to prepare a draft of the entity's financial statements, including the related notes to the financial statements. Similar to prior years, management performed a review of the financial statements. However, that review was performed by personnel whom do not have sufficient expertise to detect a misstatement in the financial statements and note disclosures contained in the audit report.

This communication is intended solely for the information and use of management, and the board of director's of Lilley Township and others within the department , and is not intended to be and should not be used by anyone other than these specified parties.

Thank you for the courtesy extended to us during the audit. We look forward to a continued relationship with Lilley Township. If you have any questions regarding the audit report, this letter or any other communications, please do not hesitate to call.

Respectfully submitted,

Hendon & Slate, P.C.

Hendon & Slate, P.C.
Certified Public Accountants
Fremont Office



January 17, 2009

To the Township Board
Lilley Township

We have audited the financial statements of the governmental activities of Lilley Township for the year ended June 30, 2008, and have issued our report thereon dated January 17, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 24, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Lilley Township are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year June 30, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of accumulated depreciation is based on life expectancies. We evaluated the key factors and assumptions used to develop accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 17, 2009.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Books and Records

A few of the items we noted during our audit were missing receipts for purchases, missing account numbers on the check stubs or invoices, and that the check numbers did not correspond with the accounting software. We recommend that the Township require receipts for all purchases and attach them to the invoice. When a check is written to pay for that invoice, the account number used to record the expenditure should also be written on the invoice. Also, care should be taken when issuing checks to ensure proper numbering.

Budgeting

The Township spent a material amount over the budget. The two largest amounts overspent were in the fire fund and the general fund. In the fire fund, total expenditures for public safety totaled \$96,106 compared to the budgeted amount of \$82,395 which caused an over expenditure of \$13,711. Also, in the general fund, township hall & grounds was over spent by \$11,492. We recommend that the Board regularly compare the budget to actual expenditures and make amendments as necessary.

We also noted that the funds were not budgeted for separately in the appropriations act. We recommend that each fund be separated and a budget amount be set individually not as a whole.

Another area in budgeting that requires attention is in the design of the budget. The State of Michigan requires Townships to comply with Michigan Public Act 2 of 1968, as amended, Section 15, which provides that a budget include the following:

- Actual expenditures for the most recently completed fiscal year;
- Estimated expenditures for the current fiscal year;
- An estimate of the expenditures in the next fiscal year;
- Actual revenue for the most recently completed fiscal year;
- Estimated revenue for the current fiscal year;
- An estimate of the revenue in the next fiscal year;
- Beginning and ending fund balance for each year;
- An estimate of the amounts needed for deficiency, contingent, or emergency purposes;
- Other data relating to fiscal conditions that the chief administrative officer considers being useful in considering the financial needs of the local unit.

Trust and Agency Fund

While the Township is following the common practice amongst small governments of having the treasurer bear all of the responsibility for accounting for tax receipts and disbursements, the Uniform Accounting Procedures Manual does state that the clerk is to have a role in this process. Per the Manual, the Township should have a separate set of accounts similar to any other fund (such as the General Fund) and should use the same practices for accounting for transactions. That is to say that the Treasurer should receipt tax revenues and provide the receipt to the clerk to be recorded in the Trust and Agency Fund accounting records. The clerk should also record all of the checks out of the Trust and Agency Fund and reconcile the accounts of this fund with the treasurer's records. Since the Township has one Trust and Agency Fund type (Current Tax Collections fund), the clerk's set

of records would include one additional fund within the accounting software appropriately titled. We understand that the Township may see this as an unnecessary series of steps that have never been performed and are often not performed by other Townships, but we view this as an opportunity to both comply with the Uniform Accounting Procedures Manual as well as strengthening the internal controls over cash and the entire tax collection and disbursement process. We have included a copy of the Uniform Accounting Procedures Manual and would be happy to assist the township in implementing these changes.

This information is intended solely for the use of Lilley Township Board and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Hendon & Slate, P.C.

Hendon & Slate, P.C.
Certified Public Accountants
Fremont, MI